

Message Text

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FM AMEMBASSY LONDON
TO SECSTATE WASHDC 8886
TREASURY DEPT WASHDC
INFO ALL EC CAPITALS
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USEEC ALSO FOR EMBASSY
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E.O. 11652: GDS
TAGS: EFIN,UK
SUBJECT: THE INVESTMENT AND TRADE CLIMATE IN THE U.K.:
A CHANGE IN TONE

SUMMARY: THE U.K. HAS HISTORICALLY BEEN CONSIDERED A
COUNTRY WITH A FAVORABLE ATTITUDE TOWARDS FOREIGN
INVESTORS AND AS HAVING A BASICALLY POSITIVE ATTITUDE
ON AN OPEN TRADING SYSTEM. WHILE THIS REMAINS TRUE,
THE TONE (FOR WANT OF A BETTER WORD) HAS CHANGED DURING
THE PAST TWO TO THREE YEARS OF THE LABOR GOVERNMENT'S
TENURE. SOME SPECIFIC POLICIES HAVE CHANGED AS WELL.
MOST RECENT EXAMPLES ARE THE CONDITIONS OF THE SIXTH
LICENSING ROUND IN THE NORTH SEA AS WELL AS CHANGES IN
THE LEVEL OF PROFITABILITY THAT WILL BE CAUSED IF THE
PROPOSED INCREASE IN THE PETROLEUM REVENUE TAX (PRT)
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REGIME IS ADOPTED IN THE NEXT SESSION OF PARLIAMENT.
THERE ARE OTHER MANIFESTATIONS. THE U.K. HAS BEEN
SHELTERED BEHIND EXCHANGE CONTROLS FOR 40 YEARS; SOME
LIMITED LIBERALIZATION HAS TAKEN PLACE RECENTLY, BUT
MUCH OF THAT HAS TENDED TO DISCRIMINATE IN FAVOR OF THE
U.K.'S EC PARTNERS AND THERE IS EVERY LIKELIHOOD THAT
THIS DISCRIMINATION WILL CONTINUE. WHEN THE EXPORT

CREDIT GUARANTEE DEPARTMENT (ECGD) RECENTLY SHIFTED THE SOURCES OF ITS FINANCING FROM DOMESTIC BANKS TO FOREIGN CURRENCY BORROWING, THE RULES WERE DELIBERATELY WRITTEN IN A WAY THAT WOULD EXCLUDE FOREIGN BANKS FROM THE MANAGEMENT OF THE ISSUES. ECGD AND THE BRITISH GOVERNMENT HAVE ALSO BEEN BLATANT IN THEIR DEROGATION FROM THE OECD EXPORT CREDIT AGREEMENT IN CONNECTION WITH THE FINANCING OF THE PANAM PURCHASE OF 12 L-1011 AIRCRAFT WITH ROLLS-ROYCE ENGINES ON MINIMUM CASH PAYMENT PROVISIONS, LOCAL COST SUPPORT, AND MATURITY.

THE PRIME MINISTER HAS SPECIFICALLY PROMOTED A "BUY BRITISH" CAMPAIGN. THE GOVERNMENT IS PRESSURING FOREIGN COMPANIES TO PURCHASE BRITISH EQUIPMENT FOR NORTH SEA OIL DEVELOPMENT. TV SCREEN QUOTA PROVISIONS HAVE BEEN ADJUSTED TO INCREASE BRITISH CONTENT. MORE RECENTLY, THE LABOR PARTY AND THE TUC HAVE JOINTLY PUBLISHED A DOCUMENT, "INTO THE 1980S", WHICH INCLUDES STRONGER EMPHASIS ON TRADE RESTRICTIONS AND GREATER REVIEW OF THE OPERATIONS OF MULTINATIONAL CORPORATIONS.

THE EMBASSY DOES NOT SEE THE TOTALITY OF THESE MOVES AS PART OF A DELIBERATE, WELL-ORCHESTRATED MASTER PLAN, BUT RATHER AS A GRADUAL SHIFT IN EMPHASIS AND APPROACH, IN PART PROVOKED BY RISING UNEMPLOYMENT AND GENERALLY SLOW WORLD ECONOMIC GROWTH. END SUMMARY

1. THE EMBASSY BELIEVES THERE HAS BEEN SOME CHANGE IN LIMITED OFFICIAL USE

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ATTITUDE IN THE U.K.'S APPROACH TOWARDS WHAT MIGHT GENERALLY BE CALLED THE INVESTMENT CLIMATE. FOREIGN INVESTMENT IS STILL WELCOME, ESPECIALLY WHERE NEW JOBS ARE CREATED OR EXISTING EMPLOYMENT MAINTAINED AND PROTECTED. INDEED, GENEROUS SUBSIDIES AND FINANCING ARE READILY AVAILABLE TO FOREIGN FIRMS SEEKING TO ESTABLISH PLANTS IN ECONOMICALLY DEPRESSED AREAS OF THE U.K. (A LENGTHY EMBASSY ANALYSIS AND DESCRIPTION OF U.K. SUBSIDIES AND THEIR RELATIONSHIP TO TRADE ARE CONTAINED IN LONDON A-464). HOWEVER, AS IN THE CASE OF LABOR MOVEMENT PRESSURES TO REFUSE TO ALLOW HITACHI TO SET UP A TV FACTORY HERE, THERE ARE NEW DE FACTO LIMITS ON SOME KINDS OF INVESTMENT. THE TERMS OF INVESTMENT ALSO CHANGE, AS WAS RECENTLY DEMONSTRATED BY THE CONDITIONS OF THE SIXTH ROUND OF U.K. OIL LICENSING AND THE PROPOSED CHANGES IN THE PRT (SEE LONDON 1267 AND 12329).

2. NORTH SEA INVESTMENTS ARE BEING MADE LESS ATTRACTIVE AT A TIME WHEN THE LARGE AND RELATIVELY EASY-TO-DEVELOP OIL FIELDS HAVE ALREADY BEEN FOUND. THE BRITISH NATIONAL OIL CORPORATION (BNOC) NOW HAS FIRST REFUSAL ON LICENSE TRANSFERS, THEREBY DAMAGING THE "FARM-IN" METHOD OF

ATTRACTING INVESTMENTS. BNOC HAS RECENTLY GAINED PURCHASE OPTIONS ON 51 PERCENT OF PRIVATE FIRMS' CRUDE, AND THE NEXT LICENSING ROUND PROPOSES TO RAISE THIS PER-

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CENTAGE. BNOC APPARENTLY HAS BEGUN TO USE CONFIDENTIAL COMPANY SEISMIC DATA TO ACQUIRE DESIRABLE DRILLING ACREAGE. SOME LICENSING AWARDS ARE NOW BEING MADE TO BNOC WITHOUT BEING OFFERED TO PRIVATE COMPANIES. THE GOVERNMENT PLANS TO RAISE THE PETROLEUM REVENUE TAX (PRT) AND REDUCE DEDUCTIONS APPLICABLE TO THE PRT. THERE IS A GROWING TENDENCY FOR THE GOVERNMENT TO REQUIRE EXPENSIVE NEW EQUIPMENT INVESTMENTS, SUCH AS GAS RE-INJECTION EQUIPMENT AND EXTRA STANDBY SHIPS, ON SHORT NOTICE. THE GOVERNMENT HAS PUT INCREASING PRESSURE ON COMPANIES TO ACQUIRE BRITISH EQUIPMENT. WHILE NONE OF THESE ELEMENTS TAKEN ALONE WOULD SUDDENLY DESTROY THE NORTH SEA INVESTMENT LURE, THE CONFLUENCE OF POLICIES IS CAUSING SOME COMPANIES TO TAKE A SECOND LOOK AT ASSUMING NEW LONG-TERM COMMITMENTS.

3. FOREIGN FIRMS DOING BUSINESS IN THE U.K. -- AND
U.K. FIRMS AS WELL -- ARE GOVERNED BY AN EXTENSIVE

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EXCHANGE CONTROL MECHANISM. IN DECEMBER 1977, THE U.K. ALTERED CERTAIN EXCHANGE CONTROL PROVISIONS. THIS INCLUDED THE ABOLITION OF CERTAIN FOREIGN EXCHANGE SURRENDER PROVISIONS WHICH, WITHOUT QUESTION, WERE BENEFICIAL AND NON-DISCRIMINATORY IN APPROACH. AT THE SAME TIME, HOWEVER, RULES WERE CHANGED RELATING TO THE AVAILABILITY OF OFFICIAL EXCHANGE FOR OUTWARD DIRECT INVESTMENT, PERSONAL CAPITAL MOVEMENTS, AND LOAN-FINANCED PORTFOLIO INVESTMENT, GIVING MORE FAVORABLE TREATMENT TO MEMBER COUNTRIES OF THE EC THAN TO NON-MEMBER COUNTRIES. U.K. OFFICIALS CONSIDER THAT U.S. CONCERN ON THIS POINT IS EXAGGERATED, BUT THEY DO NOT GIVE ANY HOPE THAT THE DISCRIMINATION WILL BE REMOVED. THEY ALSO PRIVATELY ACKNOWLEDGE THE POSSIBILITY OF FURTHER DISCRIMINATORY LIBERALIZATION TOWARDS EC MEMBERS, IN ORDER TO MEET THE U.K.'S ALREADY OVERDUE COMMITMENTS TO CAPITAL LIBERALIZATION, FORMALLY AGREED TO IN THE TREATY OF ACCESSION TO THE EC.

4. THE ECGD AND BANK OF ENGLAND HAVE RECENTLY INSTITUTED CHANGES IN ECGD FINANCING THAT EXCLUDE FOREIGN BANKS FROM MANAGING FOREIGN CURRENCY ISSUES ON BEHALF OF ECGD OR TAKING ANY PARTICIPATION IN AN ISSUE IF THEIR OWN U.K. SUBSIDIARIES ACT AS A MANAGER. THE MOTIVATION OF THE RESTRICTION IS PRIMARILY TO PROTECT THE POSITION OF THE U.K. ACCEPTING HOUSES AND MERCHANT BANKS, WHICH LACK THE PLACING POWER TO COMPETE DIRECTLY WITH FOREIGN BANKS IN MANAGING FOREIGN CURRENCY ISSUES. THIS HAS ALSO PROTECTED THE FEES ACCRUING TO SYNDICATE MANAGERS. WE ARE TOLD THE DECISION WAS TAKEN ON AT A POLITICAL LEVEL, IN ORDER TO MAINTAIN THE "QUALITY OF COMPETITION" BANK OF ENGLAND SOURCES ALSO STATE -- WITH AN ELEMENT OF JUSTIFICATION -- THAT THE NEW CREDIT SCHEME IS AT LIMITED OFFICIAL USE

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LEAST MORE LIBERAL THAN ITS PREDECESSOR BY ALLOWING FOREIGN BANKS TO PARTICIPATE IN THE LENDING SYNDICATES (LONDON A-48 OF JANUARY 30, 1978).

5. ANOTHER MORE EGREGIOUS EXAMPLE OF ECGD AND U.K. GOVERNMENT ACTIVITY IS IN THE INDUCEMENTS OFFERED BY ECGD TO PANAM IN A HIGHLY CONCESSIONAL FINANCING PACKAGE TO PURCHASE 12 L-1011'S WITH ROLLS ROYCE ENGINES, DEROGATING FROM THE OECD STANDSTILL AGREEMENT MATTERS OF

THE MINIMUM CASH PAYMENT REQUIREMENT, MATURITY, AND
LOCAL COST SUPPORT.

6. IN THE GENERAL AREA OF TRADE POLICY, THE U.K.
GOVERNMENT HAS ADOPTED A NUMBER OF POLICIES AND POSITION
DURING THE RECENT PAST WHICH ARE INTENDED TO PROVIDE A
HIGHER DEGREE OF PROTECTION FOR DOMESTIC INDUSTRIES.
THESE ACTUAL POLICY CHANGES, ALONG WITH THE ATTITUDINAL
CHANGES OF GOVERNMENT DECISION MAKERS, DO NOT APPEAR
TO BE A HIGHLY PLANNED OR CONCERTED POLICY HANDED DOWN
FROM THE CABINET, BUT THEY DO HAVE THE DE FACTO EFFECT
OF A GENERALLY MORE PROTECTIONIST STANCE.

7. SPECIFIC EXAMPLES OF STEPS ALREADY TAKEN IN THIS
DIRECTION INCLUDE THE U.K.'S INSISTENCE ON LOWER QUOTA
ARRANGEMENTS FOR LDC PRODUCERS IN THE RENEWED MULTI-
FIBER ARRANGEMENT IN ORDER TO PROTECT DOMESTIC TEXTILE
MANUFACTURERS, INSISTENCE THAT A SELECTIVE SAFEGUARD
FEATURE BE NEGOTIATED AS PART OF THE MTN AGREEMENT
AND AN INCREASING NUMBER OF VOLUNTARY RESTRAINT AGREE-
MENTS APPLIED AGAINST A RANGE OF PRODUCTS FROM FAR
EASTERN COUNTRIES, INCLUDING AUTOMOBILES FROM JAPAN.

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8. THE MOST RECENT EXAMPLE OF A MOVE HAVING THE EFFECT OF PROTECTION OF DOMESTIC INDUSTRIES IS THE CURRENT TV SCREEN TIME QUOTA CASE. IN THE U.K. THE INDEPENDENT BROADCASTING AUTHORITY RECENTLY TIGHTENED UP ON TV SCREEN QUOTAS IN A WAY INIMICAL TO FOREIGN (PRIMARILY U.S.) INTERESTS, AND DISCRIMINATORY IN FAVOR OF BRITISH PROGRAMS.

9. THERE ARE A NUMBER OF OTHER POLICIES WHICH ARE NOW IN VARIOUS STAGES OF DISCUSSION OR DEBATE WITHIN THE GOVERNMENT THAT WOULD HAVE PROTECTIONIST EFFECTS IF IMPLEMENTED. THESE INCLUDE THE POSSIBILITY OF SETTING SPECIFIC IMPORT PENETRATION PERCENTAGES TO BE ALLOWED IN A NUMBER OF SECTORS, AND A NEW AND POTENTIALLY SERIOUS CAMPAIGN TO "BUY BRITISH" WHICH WOULD HAVE NEGATIVE EFFECTS ON TRADITIONAL SUPPLIERS SUCH AS THE U.S. (SEE LONDON 7853).
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10. RECENTLY A JOINT TUC AND LABOR PARTY DOCUMENT, "INTO THE 80'S: AN AGREEMENT," PLACED CONSIDERABLE EMPHASIS ON TRADE RESTRICTIONS AND GREATER CONTROL OVER MULTINATIONAL CORPORATIONS AND THEIR CAPITAL FLOWS, WHETHER INWARD OR OUTWARD, WHATEVER THE REASON.

11. THE EMBASSY DOES NOT BELIEVE THAT THE U.K. HAS A MASTER PLAN WHICH HAS ORCHESTRATED THE DESCRIBED MEASURES. WE DO BELIEVE, HOWEVER, THAT THE ABOVE EXAMPLES DEMONSTRATE THAT DURING THE PAST 2 - 3 YEARS OF LABOR GOVERNMENT'S TENURE, THERE HAS BEEN A CLEAR TENDENCY TOWARDS TIGHTER CONTROL, PROTECTIONISM, GREATER SUBSIDIES AND INTERFERENCE BY THE GOVERNMENT IN MANY AREAS AND A CONSISTENT "TILTING" IN FAVOR OF U.K. FIRMS, FINANCIAL INSTITUTIONS AND NATIONALIZED INDUSTRIES. THERE ARE NUANCES. FROM THE VIEWPOINT, SAY, OF U.S. FIRMS ESTABLISHED IN THE U.K. OR PURCHASING FROM A U.K. SUPPLIER, PROTECTION FROM FOREIGN IMPORTS, OR BEING ABLE TO BENEFIT FROM SUBSIDIZED EXPORT CREDIT IS ATTRACTIVE. SO TOO ARE GOVERNMENT SUBSIDIES TO A U.K. SUBSIDIARY OF A U.S. FIRM TO PROTECT OR CREATE EMPLOYMENT AND MAINTAIN OR INITIATE PRODUCTION THAT WOULD OTHERWISE BE MET FROM IMPORTS. IN THIS REGARD, THE U.K. COULD BE AN ESPECIALLY ATTRACTIVE VENUE TO THE PARTICULAR U.S. COMPANY IN QUESTION.

12. U.K. AUTHORITIES WOULD JUSTIFY AT LEAST SOME OF THEIR ACTIONS ON THE BASIS OF RESPONDING TO SLOWER WORLD ECONOMIC GROWTH AND MEETING THE REQUIREMENTS

OF EC MEMBERSHIP. EVEN TAKING INTO ACCOUNT THE DEMANDS
OF POLITICAL AND PROTECTIONIST EXPEDIENCY (AND THE U.K.
HAS ITS PRESSURE GROUPS), IT DOES APPEAR THAT THE TONE
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AND SETTING HAVE GRADUALLY CHANGED. ASSUMING LABOR
REMAINS IN POWER, THERE IS NO REASON TO BELIEVE THAT THE
TREND WILL CHANGE.

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